





Managed Health Care Associates, Inc.

September 23, 2010

Mr. Tim Woo Financial Accounting Standard Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Request for Comments from AICPA/FAF/NASBA "Blue-Ribbon" Panel on Standard Setting for Private Companies from Constituents

Managed Health Care Associates Inc. is pleased to respond to your request for responses to questions on how accounting standards can best meet the needs of U.S. users of private companies' financial statements. We are the leading Group Purchasing Organization in the close-door long term care pharmacy market. Our members are mostly owner operated small businesses. The responses to the attached questionnaire reflect the views of our company not our members. We have been privately owned since our inception more than 20 years ago.

We congratulate the FASB on the formation of this Blue Ribbon panel to examine,

- How financial standards affect the relevance of financial statements of private companies,
- The growing complexity of accounting standards and
- The increasing cost to preparers of private companies.

It is our view that this is a worthwhile effort as the standards have indeed become too complex seemingly in response to specific events in specific industries. It seems that due to the ever increasing complexity of financial markets and the convergence with international standards the FASB is putting fair value accounting everywhere without consideration to the relevance or impact to non-financial industries. With the adoption of FAS 141 which requires the fair value measurement of goodwill across all industries the FASB demonstrated that it has an overly philosophical approach to accounting.

While we do not support the creation of separate standards for privately held companies we do support a wider use of exceptions for private companies. The FASB has sparingly made use of this tool in the past, mostly around disclosure requirements (i.e. FIN 48). We believe that a wider use of scope limitation for private companies would protect us from literature which is aimed a correcting or addressing specific behavior in public companies. Many of these accounting pronouncements are continuously updated as they are met with unforeseen complications in the implementation process (i.e. FAS 133). All these come at a cost to preparers that often do not add value to the users.

Our users are entrepreneurs and creditors that are close to the business. They are insiders that sit on our board or have frequent direct access to management. They are interested principally in cash flow and EBITDA. The latter surprisingly is not a GAAP measurement. They are not interested in Other Comprehensive Income which is a GAAP measurement. They expect our financial statements to tell the

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story they are already familiar with from being insiders. Furthermore the compliance cost in dollars and hours is ever increasing. It often takes us longer to get through the year-end audit than it would take a large public entity because unlike those entities we do not have the resources to utilize to implement complex pronouncements.

We appreciate the opportunity to contribute to this dialogue. We are available to discuss our responses to the attached questionnaire.

Best regards,

Stephen Andrew, CPA Chief Financial Officer

Managed Health Care Associates, Inc.

Response No. 147
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Stephen Andrew

QUESTIONS FOR SUBMISSIONS

All respondents:

1. Please complete the <u>form</u> to help compile information on the respondents and send as a separate attachment. The results of question 1 will <u>not</u> be posted to this webpage for public viewing.

Users (e.g., lender, surety, investor, owner) only:

2. a) Briefly describe how you use GAAP financial statements in your decision-making concerning private companies.

As part of M&A activity, we are provided with financial statements for target companies. We also provide audited financial statements to our owners and creditors.

b) Tell us about any issues or concerns that you may have with respect to the <u>relevance</u> of the information contained in those statements. Please be as specific as possible in your answer.

N/A-We are responding as preparer, not users.

All respondents:

3. a) Tell us about any issues or concerns you have with current U.S. GAAP accounting standards as those standards apply to private company financial statements.

The FASB has been issuing new pronouncements at an accelerated pace which makes it hard for the staff of private companies to keep current. Furthermore these pronouncements are ever more complex and in some cases depart from well established accounting concepts. FAS 141R is perfect example. Under this new pronouncement the FASB requires us to expense all our acquisition costs. This represents a departure from the long-held standard of capitalizing all the costs involved in obtaining an asset. GAAP is too complex and technical for the accounting staff of most private companies. Another area of concern is fair value accounting. Our company is not publicly traded and therefore the value of company has to be derived using mathematical formulas that require a Ph.D. to understand. The resulting fair value is generally not relevant at all. Private company should be exempted from fair value accounting as it is not relevant to our business, drastically increases our cost of compliance and adds no value to the readers of our financial statements.

b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

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They are systemic.

c) Do you believe that those issues or concerns are largely confined to private companies, or are they broader?

The complexity of US GAAP is a broader issue that affects all companies. But the effect on private company is greater as we are smaller and do not have the permanent staff that can handle this complexity.

4. What short-term and/or long-term actions do you believe are necessary to address those issues or concerns? Please be as specific as possible in your answer, and explain your reasoning.

The use of exemptions for private companies on complex pronouncements. By limiting the scope of accounting pronouncement to public companies, the FASB will shield private companies from complex theories which do not relate to our business. While judgment is necessary on this, fair value accounting is a good place to start doing the scope limitation.

- 5. a) To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect your answers above? Why?

 N/A
 - b) To what extent, if any, would other outside factors affect your answers above? Which factors and why?
- 6. Is there any other input that you'd like to convey to the Panel?

Accounting is supposed to be simple and objective. After the large scandals of the past years, there was a move to return to "Standards Based Accounting". It seems that we are moving far from that objective, and delving into esoteric theory, which does not enhance the useability of financial statements. Most creditors and investors ignore all these complex disclosures, much the same way the did with deferred taxes in the 1980s. Today, more than ever before, we get different answers from different accountants on the same issue. Financial statements are complex and confusing. While that may be justified for public entities which business is highly complex, and even that is doubtful, it is not justified for private enterprises. You should roll back the use of fair value for private companies.

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Please see our cover letter for additional comments.

7. Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

Both individual and Company.